The Missoula Plan:

Bad for Customers, Bad for Competition, Bad for The Market

NARUC CONFERENCE CALL

September 25, 2006

Agenda

- **Introduction** - *Tom Cohen (Kelley Drye)*
- **Participant Introductions**
  - Consumers - *Billy Jack Gregg (NASUCA)*
  - Cable Industry - *Rick Cimerman (NCTA)*
  - CLEC Industry - *Mary Albert (CompTel)*
  - Wireless Industry - *Paul Garnett (CTIA)*
  - Verizon - *Dennis Weller*

Agenda

- **Specific Objections of Opponents**
  - Objections from Consumers
    - <u>Consumer Issues:</u> The Plan Harms Consumers While Preserving and Enhancing ILEC Revenues - *Billy Jack Gregg*
  - Objections from CLECs
    - <u>State Preemption:</u> The Plan Diminishes State Authority - *Chip Yorkgitis (Kelley Drye)*
    - <u>Competitive Issues:</u> The Plan Undermines Competition - *Doug Kinkoph (XO)*
    - <u>Too Many Unknowns, Too Many Questions:</u> Plan Omits Key Details - *Tamar Finn (Bingham)*
    - <u>Not a Reform Plan:</u> Plan Fails to Achieve Principled Reform - *John Sumpter (PacWest)*
    - <u>Plan Will Impede Infrastructure Investment and Market Development in Rural Areas</u> - *Nan Thompson (GCI)*

Agenda

- **Specific Objections of Opponents**
  - Cable Objections – *Doug Garrett, Cox*
  - Wireless Objections – *Paul Garnett, CTIA*
  - Verizon Objections - *Dennis Weller*
- **Q&A and Wrap Up** - *Lila Jaber*

Introduction

- Thanks to Tony Clark and the Telecom Committee for Hosting the Call and the IC Task Force for their Work
- Procedure for Call
- Overarching Policy Issue – ICC reform has made great strides over the past decades; yet select problems remain. The Missoula Plan unfortunately sets forth a solution that does not deal properly with these problems and hence does not work for consumers, competition or the overall market.
- The Opposition to the Missoula Plan is Broadbased and Deep.
  - Consumer groups, cable companies, wireless carriers, the incumbent providers and competitive carriers.
  - These groups and firms share objections and have unique concerns as well.

Opponents of the Missoula Plan

- Consumers
- Cable Industry
- CLEC Industry
- Wireless Industry
- Verizon

CLEC Opponents

- **Cavalier Telephone** is a facilities-based CLEC serving 385,000 residential and business access lines in the mid-Atlantic region.
- **COMPTEL** is the leading industry association representing competitive communications service providers and their supplier partners.
- **Core Communications, Inc.** (CoreTel) is a CLEC based in the Mid-Atlantic focused on providing next generation data and voice applications to businesses and consumers.
- **GCI** is the largest telecommunications provider in Alaska. It started as a competitive interexchange provider in 1979 and now provides telephony, cable, internet and wireless services.
- **McLeodUSA** is a leading facilities-based provider of integrated voice and data communications services to small- and medium-sized enterprises and residential customers with a network in 20 states in the Midwest, Rocky Mountain, Southwest and Northwest regions.
- **NuVox Communications** is a CLEC providing voice, broadband internet and related services to small and medium-sized business customers in 46 cities across 16 states in the Southeast and Midwest.
- **One Communications** is a facilities-based competitor operating in the Northeast, Mid-Atlantic and Midwest regions providing a range of advanced telecommunications services to small, medium and large business customers.
- **Pac-West Telecomm, Inc.** has been offering advanced communication services to its customers for over 25 years and is now providing service in 17 states.
- **RCN Corporation** is a facilities-based competitive provider of cable, high-speed internet and phone services to residential customers in the most densely populated markets, including Boston, Maryland, New York, Eastern Pennsylvania, Virginia, Washington, D.C., and Chicago. RCN Business Solutions is a growing business that provides bulk video, high-capacity data and voice services to business customers.
- **XO Communications** is a facilities based National Local Exchange Carrier that offers nationwide communication solutions exclusively for businesses, agents and carriers. XO delivers a range of services from Local to Long Distance phone service, DSL to Dedicated Internet Access (DIA), and advanced Network Security solutions.
- **Xspedius Communications, LLC** provides local, long distance, Internet, and integrated voice and data services to small and medium-sized customers in the South and Southwestern United States.

Cable Opponents

- Comcast
- Charter Communications
- Cox Communications
- NCTA
- Time Warner Cable

Wireless Opponents

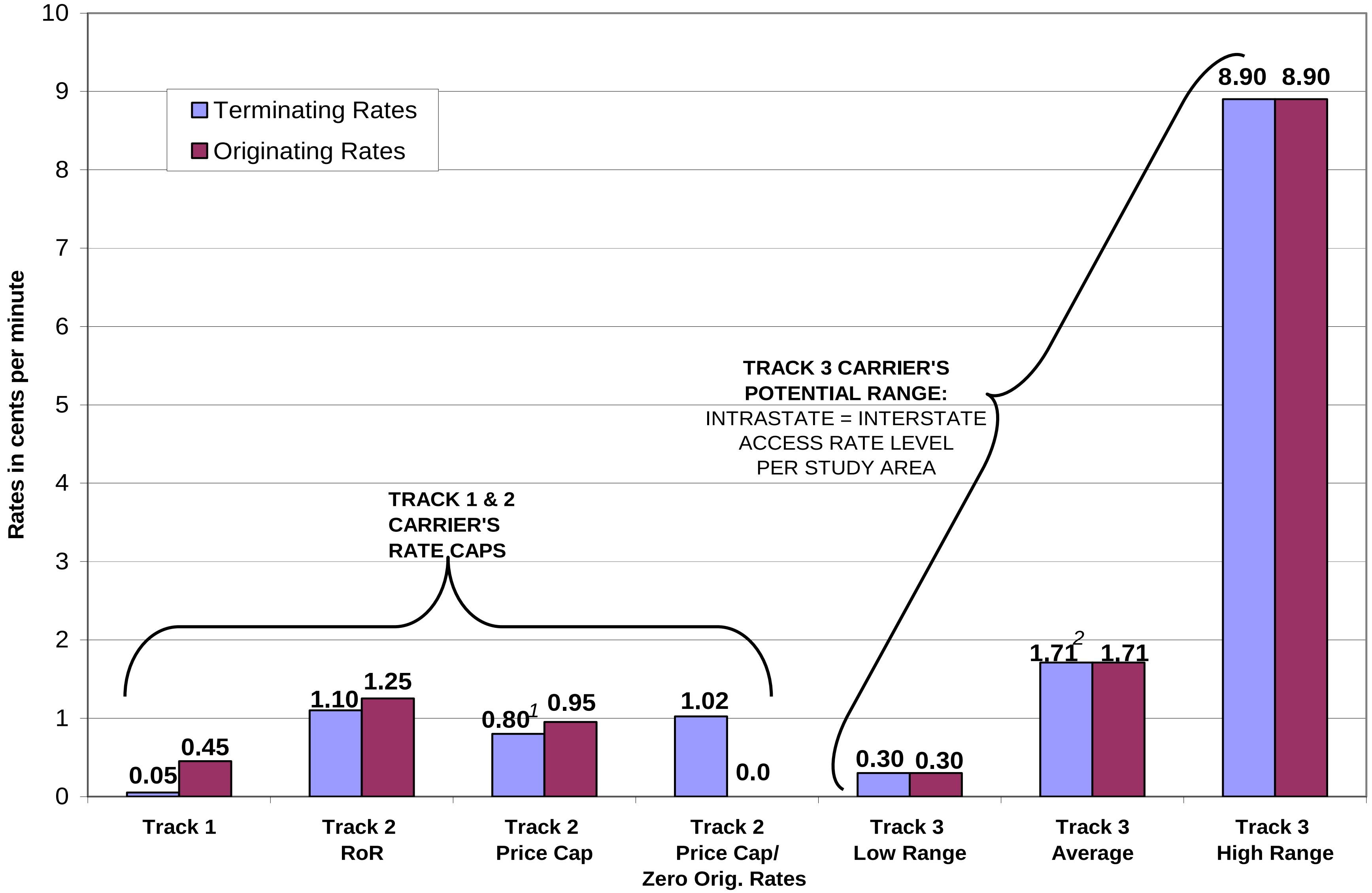
- CTIA - The Wireless Association® is the international organization of the wireless communications industry for both wireless carriers and manufacturers. CTIA membership covers Commercial Mobile Radio Service ("CMRS") providers and manufacturers, including cellular, broadband PCS, ESMR, as well as providers and manufacturers of wireless data services and products.

Consumer Opposition to the Missoula Plan

Consumer Issues: The Plan Harms Consumers While Preserving and Enhancing ILEC Revenues

- **Consumers Oppose Missoula Plan**
  - Missoula Plan does not eliminate disparity in intercarrier rates.
  - Missoula Plan unreasonably raises local rates.
  - Missoula Plan results in unsustainable increases in the Universal Service Fund.
  - No sharing of the burdens imposed by the Missoula Plan.

The Missoula Plan Does Not Eliminate Disparity in Rates



1. Assumes end office switching rate of 0.05¢ and 0.75¢ for common transport and tandem switching.

2. Compensation for EAS traffic remains under existing arrangements. Reciprocal compensation rates for 251(b)(5) traffic capped at interstate access rate levels.

Consumer Issues: The Plan Harms Consumers While Preserving and Enhancing ILEC Revenues

- **There is No Sharing of the Burden of the Missoula Plan**
  - ICC Rates are reduced $6 Billion
  - No pass through of reductions to consumers
  - **End user rates go up $6.9 Billion to pay for Missoula**

$4.7 B increase in SLCs
$1.5 B for Restructure Mechanism
$0.3 B increase in High Cost Fund
$0.2 B increase in Low Income Fund
<u>$0.2 B for Early Adopter Fund</u>
$6.9 B TOTAL

Consumer Issues: The Plan Harms Consumers While Preserving and Enhancing ILEC Revenues

- **Missoula Plan Results in Unsustainable Increases in USF**
  - Plan calls for $2.225 Billion increase in USF funding: Restructure Mechanism; High Cost Fund; Low Income Fund; and Early Adopter Fund
  - **A 32% increase in current $7 Billion USF**
  - Would result in assessment factor on all interstate and international revenues in excess of 13%

CLEC Opposition to the Missoula Plan

State Preemption: The Plan Diminishes State Authority

- **The Plan's Establishment of Intrastate Access Rates Impermissibly Intrudes Upon State Jurisdiction**
  - Section 2(b) of the Communications Act preserves state authority over intrastate activities
  - US Supreme Court decision in *Louisiana PSC* controls
  - US Supreme Court decision in *Iowa Utilities Board* reaffirms *Louisiana PSC* except where FCC given explicit jurisdiction
  - Section 252 of the Communications provides for state authority of reciprocal compensation rates
  - Statutes apply regardless of indirect methods of control in Missoula Plan

State Preemption: The Plan Diminishes State Authority

- **The Plan is Fundamentally at Odds with the Interconnection Provisions of the 1996 Telecommunications Act**
  - Section 252 of the Communications Act only provides for carrier-carrier negotiations or state arbitration
  - States have spent a decade overseeing these market-opening provisions
  - The Missoula Plan makes these state actions irrelevant, and, more importantly, undermines all state authority to deal with these issues

Competitive Issues: The Plan Undermines Competition

- **The plan enables ILECs, but not CLECs to offset revenue reductions**
  - ILECs will be able to increase SLCs in areas with little or no local competition, while holding SLCs down in areas experiencing competition.
  - CLECs will not be able to increase their customers' SLCs without losing customers.
  - The burden of increased SLCs will likely fall disproportionately on residential customers who have no or fewer competitive choices.

Competitive Issues: The Plan Undermines Competition

- **The restructuring Mechanism limits claims for monies to the ILECs and thus is discriminatory**
  - The restructure mechanism provides a pool of money for the ILECs to draw from when the SLC increases do not fully recover their lost revenue. The plan does not allow for competitors to draw from this fund.
  - The contribution method to be used to fund the restructure mechanism is undefined, but creates the potential for additional inter-carrier subsidy flows, plus the prospect that CLECs may be forced to help fund an additional revenue recovery pool from which they will not be able to draw.

Competitive Issues:
The Plan Undermines Competition

- **The Missoula Plan turns the current interconnection framework on its head**
  - ILECs are permitted to designate multiple traffic termination points in each LATA.
  - Edge proposal unilaterally eliminates CLECs rights to interconnect at any technical feasible point pursuant to Section 251(c) of the Act.
  - If CLECs elected to interconnect under 251(c) of the Act, they can do so but at special access rates, not UNEs.

Competitive Issues: The Plan Undermines Competition

- **The Missoula Plan turns the current interconnection framework on its head**
  - Edge proposal will require CLECs to undergo massive network regrooming, while leaving the ILECs largely unaffected.
  - The plan abrogates the CLEC's statutory right to cost-based interconnection.
  - The Plan's out-of-balance traffic rule would require the carrier terminating the larger amount of traffic to be financially obligated for all transport to interconnect the two carriers for traffic in both directions.
  - Where parties have continued to operate under agreement in evergreen, Plan should not discriminately impact such agreements.

Competitive Issues: The Plan Undermines Competition

- **Deregulation of transit rates exacerbates the discriminatory impact of the plan against CLECs**
  - The FCC has identified tandem transit as a bottleneck service.
  - Plan would push transit rates higher, above-cost levels, both increasing ILEC revenues and raising CLEC's cost of providing local service.
  - Entering into direct interconnection arrangements with all other CLECs in a local market is not administratively practical or economically viable unless the parties agree that traffic volumes warrant direct interconnection.

Competitive Issues: The Plan Undermines Competition

- **Reciprocal Compensation Provisions of the Plan would not allow for adequate Recovery of Carrier costs**
  - Based on State TELRIC proceedings the rate for Reciprocal Compensation is below-cost, if it is not, the states should question why the Reciprocal Compensation rates pushed by the ILECs in State cost proceedings have been significantly higher.
  - Plan fails to bring rate uniformity to this issue, different rates apply based upon the identity (ILEC, Non-ILEC, etc), of the originating and terminating carriers.
  - Disparity between termination rates and transit rate (primarily paid to ILEC) for identical functions (transport and switching) shows that rates are not uniform, principled, or cost-based.

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- Because the Plan attempts to address a plethora of issues in addition to intercarrier compensation reform, it fails to address key implementation issues.
- The Cost Based Intercarrier Compensation Coalition submitted three pages of questions to Plan drafters in early August—to date, no answers.
- Many unanswered questions raise issues of state commission jurisdiction and authority, including the following examples.

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- Universal Service
  - Plan fails to show the impact on consumers, individual carriers, or states of establishing the Earlier Adopters Fund and Restructuring Mechanism.
  - Unclear when, if at all, CLEC would be entitled to recover lost access revenues from Restructuring Mechanism.

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- Rates
  - Why $0.0005? What is the cost basis for this rate? No ILEC has submitted a cost study supporting such a low rate.
  - Why are rates asymmetric? Who determines if the functions in two interconnecting networks are "comparable" so that rates are symmetric, state commissions, the FCC?
  - Do CLECs have the option of choosing rates from the Tracks in which they operate and if so can they charge the same rate to all of their customers?
  - If a state commission had ordered bill and keep or a rate lower than $0.0007, does the Plan preempt that rate at Steps 1 & 2?

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- Transport and Interconnection Architecture
  - What is the justification for making the out-of-balance carrier pay for all transport between the Edges? Does the penalty apply only when the terminating carrier's rate is higher or regardless of the rate? Is this provision reciprocal? If it is, it creates an arbitrage opportunity.
  - If a CLEC is currently paying TELRIC rates for transport to the POI/Edge, at Step 1, would that rate jump up to intrastate dedicated access rate (before stepping down to interstate access rate)?

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- Transport and Interconnection Architecture
  - Unclear whether Plan expands interconnection rights to "communications service providers" and wholesale providers that are not certified carriers. If so does PUC have jurisdiction?
  - Unclear whether the default interconnection rules apply to Track 3 carriers who have asserted a rural exemption from interconnection obligations under 251(f).

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- VoIP Traffic
  - To the extent VoIP traffic is access, how does the plan make that determination fit within the requirements of Section 251(g)? Or does the Plan apply access to VoIP traffic without meeting the requirements of 251(g)?
  - If VoIP calls are to be treated differently than "non-VoIP" calls, how will carriers (and regulators) distinguish VoIP calls to apply only *inter*state access to such calls?

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- 8YY Traffic
  - Because CMRS carriers can charge terminating access to IXCs of $0.0007, may they charge access on 8YY calls placed from cell phones (which is treated as terminating access)? Who decides?

Too Many Unknowns, Too Many Questions: Plan Omits Key Details

- Miscellaneous
  - Does the Plan impact existing litigation; is it retroactive for pending litigation before state commissions?
  - Does the Plan abrogate existing contracts? Does the Plan trump interconnection agreements that are in evergreen periods? Who decides?
  - What does the Missoula Plan have to do with broadband investment? The proponents claim that Plan will encourage broadband investment. But it may instead discourage broadband investment in areas served by Track 3 carriers.
- Separations Issue
  - What happens to separations? When state commissions set consumer and access rates, how will they determine what portion of the costs are allocated to which jurisdiction?

Not a Reform Plan: Plan Fails to Achieve Principled Reform

- Plan is overly complex and goes well beyond intercarrier compensation; materially modifies USF, interconnection, traffic billing and collection, and rate deregulation.
- Plan fails to meet FCC and NARUC principles for reform.
- Plan does not preserve state authority over intrastate rates.

Not a Reform Plan: Plan Fails to Achieve Principled Reform

- Plan does not promote economic efficiency.
  - Plan rates are not cost-based. Track 1 termination rates for incumbents remain above cost in the first two years then are reduced to below cost. Transit rates are above-cost and ultimately unregulated.
  - No incumbent has offered TELRIC cost study showing a cost-based rate for transport and termination below $0.001.
  - Plan would undo settled network architecture and move from TELRIC rates to non-cost based interstate access rates.

Not a Reform Plan: Plan Fails to Achieve Principled Reform

- Plan is not competitively or technologically neutral.
  - Addressed by Doug Kinkoph.

Not a Reform Plan: Plan Fails to Achieve Principled Reform

- Plan does not create regulatory certainty, limit the need for regulatory intervention, or eliminate arbitrage based on regulatory distinctions.
  - Plan complexity and suspect legal rationale guarantees litigation not clarity (for example, even the proponents can not agree about when out-of-balance transport penalty applies).
  - Plan does not unify rates but continues regime of different rates for same function based on carrier involved (rural, non-rural, rate of return, price cap).
  - Regulatory arbitrage opportunities will continue under Missoula (for example, turns 8YY calls into local based on routing).

Not a Reform Plan: Plan Fails to Achieve Principled Reform

- Plan does not preserve universal service.
  - Addressed by Billy Jack Gregg.
- Plan does not encourage the efficient use of, and investment in, telecommunications networks, and the development of efficient competition.
  - Although Plan's sponsors make claim that Plan promotes investment in broadband networks, this Plan has nothing to do with broadband.

Plan will Impede Infrastructure Investment and Market Development in Rural Areas

- In rural areas, the Plan perpetuates rather than resolves the problems necessitating intercarrier comp reform.
- The Plan will force existing and nascent competitive markets to regress to monopoly markets.
- The Plan violates 254(g) of the Act which requires carriers to charge rural customers no more than urban customers for interstate calls.
- The Plan will be a barrier to deployment of innovative new technologies and services in rural areas.

Cable Opposition to the Missoula Plan

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- Intercarrier Compensation Reform Should Promote Facilities-Based Competition.
  - Cable operators have invested over $100 billion since 1996, to provide a full suite of digital video, broadband, and phone services.
  - By the end of the year, telecommunications service provided by cable operators will be available to over 85 million households nationwide.
  - Cable's entry into the telecom market has produced tangible savings for consumers. According to a recent J.D. Power report, cable phone customers save an average more than $10 per month on their wireline phone bills.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- Cable Operators Support Rational Intercarrier Compensation Reforms.
  - Equalize charges for call termination to minimize arbitrage.
  - Adopt rules for passing accurate signaling information and, where appropriate, billing information to reduce so-called phantom traffic.
  - Provide transitional support for rural companies where regulators maintain control of overall company earnings, but *not* for companies that are spending billions to build video infrastructures to increase their revenue streams.
  - Ensure that ILEC transit services continue to be provided pursuant to section 251 interconnection agreements.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Missoula Plan Does Not Promote Facilities-Based Competition and Should Not Be Adopted.
  - The Missoula plan would make it more difficult and more expensive for cable operators to continue providing benefits to consumers.
    - By increasing the costs of interconnection and transit significantly over existing arrangements.
    - By increasing the USF surcharges to consumers in order to shield ILECs from the effects of competition.
    - Through the potential for imposition of call termination charges in the absence of an interconnection agreement.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Missoula Plan is Extremely Complex and Administratively Burdensome for Competitors.
  - The current intercarrier compensation regime relies on a series of arbitrary regulatory distinctions that have no economic or technical basis.
  - Despite claims to the contrary, the Missoula Plan does not improve on this situation.
  - The plan continues to distinguish between local and long distance calls; it maintains different local calling areas for different technologies; and it includes numerous unwarranted distinctions between incumbents and competitors.
  - This sort of complexity imposes real costs on new entrants (such as billing systems and trunking arrangements) and thereby discourages competitive entry.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Missoula Plan Fails to Provide Needed Clarity Regarding the Rights and Obligations of IP-Based Communications Providers.
  - Cable operators, like all other telecommunications providers, increasingly are using IP technologies in their networks.
  - The Missoula Plan is completely silent on the treatment of calls that begin and end on IP networks.
  - It is equally silent on the consequence, if any, when a LEC transitions from circuit-switched technology to IP technology.
  - There is no clear statement that VoIP providers are entitled to receive compensation when they terminate calls.
  - In an IP world, the lack of clarity on the treatment of IP services and networks provides a disincentive for additional investment.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Missoula Plan Inappropriately Deregulates Incumbent LEC Provision of Transit Service.
  - Transit service is absolutely essential for cable operators and other facilities-based competitors.
  - Given the absence of competition, transit services should be regulated under section 251 and provided at cost-based rates pursuant to interconnection agreements.
  - Rather than imposing the necessary regulation, the Missoula proposal would establish an unreasonably high rate cap for transit services, which would disappear after a limited period of time, without any showing that competition exists.
  - The lack of any meaningful constraint on transit rates will result in cost increases for cable operators and other facilities-based competitors, and thereby reduces the benefits to consumers from competitive entry.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Interconnection Rules Contained in the Missoula Plan are Unreasonably Discriminatory.
  - One of the biggest challenges that cable operators have faced is establishing appropriate interconnection arrangements with incumbent LECs.
  - Although the *Intercarrier Compensation* proceeding provides an opportunity to bring much needed clarity to this area, the Missoula Plan does not capitalize on this opportunity.
  - Allowing incumbent LECs to designate the "edge" of their networks creates the potential for them to significantly increase the cost to competitors of existing interconnection arrangements at other points in the network.
  - The rules governing interconnection between Track 3 carriers and competitors are blatantly discriminatory because they place all of the responsibility for the cost of these arrangements on competitors.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Proposed Restructure Mechanism is Inherently Unfair to Competitors and Should be Scaled Back Significantly.
  - The Restructure Mechanism is exactly like a universal service fund, except that it is not open to competitive providers and therefore violates federal law.
  - The proposed Restructure Mechanism is inherently anticompetitive because competitors must match the access charge reductions of incumbents (and in some cases charge even less), without the benefit of the offsetting funds.

The Missoula Plan: Detour on the Road to Facilities-Based Competition

- The Proposed Restructure Mechanism is Inherently Unfair to Competitors and Should be Scaled Back Significantly.
  - Moreover, the entire premise that incumbent LECs must be compensated dollar-for-dollar for any access charge reductions is flawed because it ignores the numerous alternative revenue streams (such as long distance service, DSL service, and video services) that incumbent LECs have developed to recover the costs of their networks.
  - In a marketplace where companies compete for packages of multiple services, providing the incumbent with revenue streams that are not available to competitors unfairly tips the scales and unquestionably discourages competitive entry.

Wireless Opposition to the Missoula Plan

CTIA Welcomes This Opportunity

- The wireless industry needs to be a major voice in the debate on intercarrier compensation and universal service reform.
  - There are now more wireless subscribers in the U.S. than wireline switched access lines (approx. 219 million versus 197 million).
  - Approximately 50.5 percent of rural households and 53.5 percent of urban households have wireless services.
  - 97% of wireless customers live in counties with a choice of three or more wireless carriers and 87% of wireless customers live in counties with a choice of five or more wireless carriers.

CTIA Welcomes This Opportunity

- The wireless industry needs to be a major voice in the debate on intercarrier compensation and universal service reform. (cont'd)
  - A growing percentage of traffic on the public switched network involves a wireless subscriber.
    - Wireless minutes of use reached 1.5 trillion minutes in 2005.
    - The average wireless customer has approximately 700 minutes of use per month.
- Policy makers therefore should no longer view intercarrier compensation and universal service as an incumbent wireline issue.

Fundamental Reform of these Systems is Urgently Needed

- The current intercarrier compensation and universal service systems are increasingly irrational – and unsustainable – in today's multi-dimensional communications marketplace.
- The current rules promote and reward economically irrational behavior that leads to less value, innovation, and choices for consumers – especially those located in rural, high-cost areas.
- Superficial wireline-centric reform will further encourage regulatory arbitrage and accelerate strains on the already broken intercarrier compensation and universal service systems.
- Failure to implement meaningful reform also will slow the nationwide proliferation of the very types of advanced services that universal service and competition policies are meant to promote.

FCC Goals for Reform

- In the FNPRM, the FCC identified three primary objectives for intercarrier compensation reform:
  - Economic efficiency, and in particular, the development of facilities-based competition;
  - The preservation of universal service, including expanded choices and lower rates for consumers;
  - Elimination of artificial regulatory distinctions.
- The Missoula Intercarrier Compensation Proposal falls short on all three objectives.

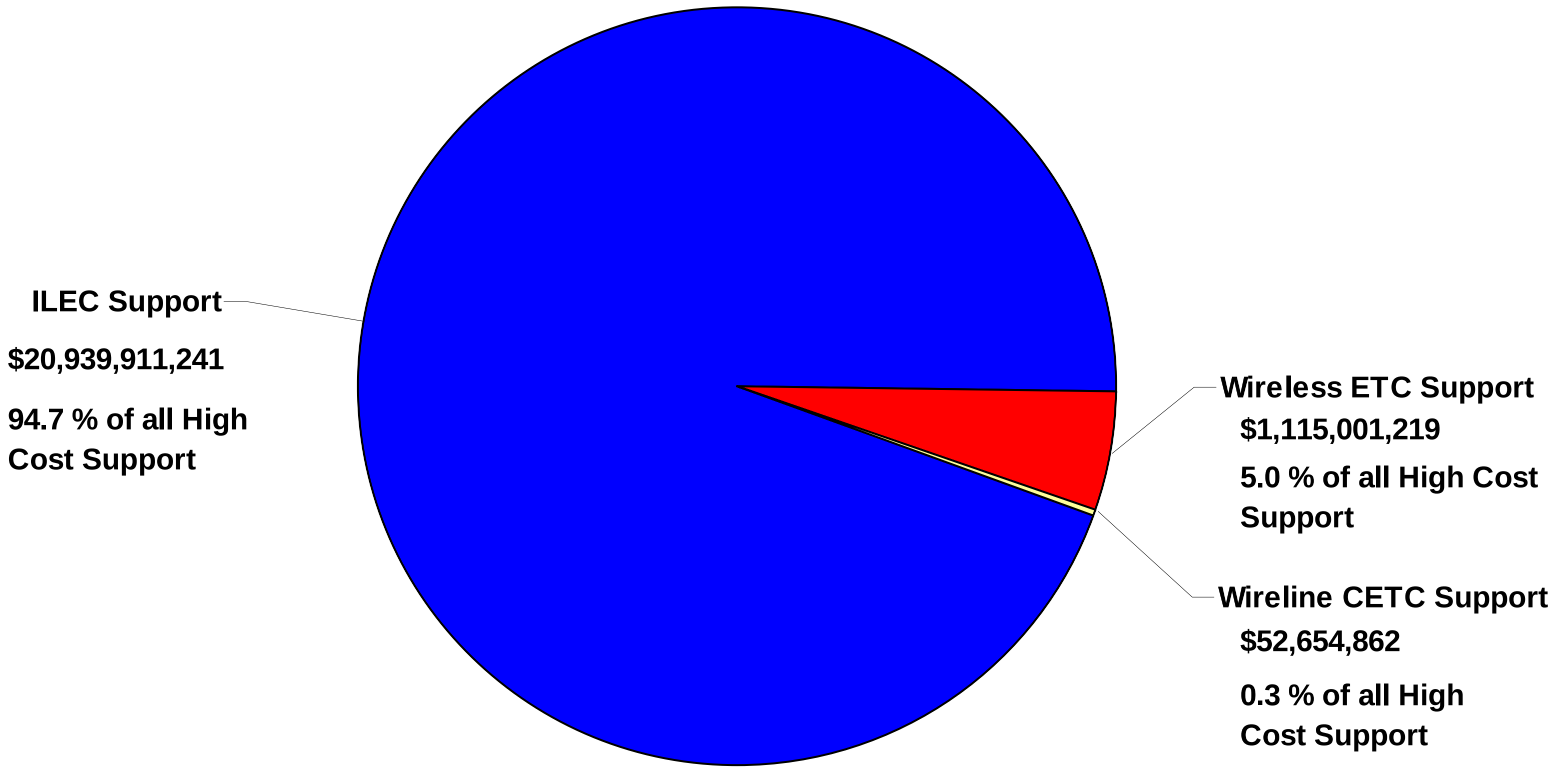
The Missoula Plan Will Lead to More Inefficiency

- The Missoula Plan will lead to more inefficiency, which will translate to greater costs for consumers.
  - Two-Way Transport Rules will reward rural incumbent LECs with antiquated, inefficient, and costly network architecture.
  - Transit Rates are higher than carriers pay today and will increase over the duration of the Plan.
  - New Universal Service mechanisms will reward the most inefficient incumbent LECs – larding up an already bloated system.

The Missoula Plan Will Not Advance Universal Service

- The Universal Service provisions of the Plan are focused more on achieving "revenue neutrality" for incumbent LECs than on delivering benefits to consumers. The Plan includes:
  - Funny Math – The Restructure Mechanism counts revenue losses, but does not count revenue increases or cost savings.
  - More Profit Guarantees – Guaranteeing incumbent LECs 11.25% profits through subsidy mechanisms paid for by other carriers' customers turns consumer choice on its head. Incumbent LECs should get their profits from their own end-user customers.
  - Extra Goodies – The Plan includes a goody bag of universal service increases that have absolutely nothing to do with intercarrier compensation reform.

Wireless and Wireline Share of the Cumulative High Cost Support Drawn from the Federal Universal Service Fund: 1998 - 2005



Source: USAC Data

The Missoula Plan Does Not Eliminate Regulatory Distinctions

- It is commonly accepted that consumers benefit from regulations that do not distort competitive markets. Unfortunately, the Missoula Plan's interconnection, intercarrier compensation, and universal service provisions clearly favor incumbent wireline carriers.
  - <u>No Rate Unification</u> – The Missoula Plan will result in a dizzying array of rates for performing the same functions.
  - <u>No End User Rate Comparability</u> – The Missoula Plan endorses lower end-user rates in higher cost areas – turning rate comparability on its head.
  - <u>Insulating Universal Service From Consumer Choice</u> – Limiting new universal service support to incumbent LECs will discourage market entry by more efficient and innovative competitors.
    - "Access Replacement" is universal service no matter how it is labeled.

There are Better Options

- These are less complicated, but just as comprehensive, proposals to reform the intercarrier compensation system.
- CTIA's Mutually Efficient Traffic Exchange (METE) Proposal would address the FCC's goals for reform.
  - Encourages and Rewards Efficiency
  - Advances Universal Service
  - Eliminates Regulatory Distinctions
  - Avoids Unnecessary Administrative Complexity

CTIA-The Wireless Association® Reform Proposal Highlights

- Encourages parties to continue exchanging traffic pursuant to validly negotiated and approved interconnection agreements;
- Transitions to a Mutually Efficient Traffic Exchange ("METE") system that:
  - Establishes a basic obligation for an *originating* provider to assume the costs of delivering traffic to the *terminating* provider's "network edge;"
  - Eliminates regulatory distinctions between different types of providers and traffic (e.g., wireless/wireline, rural/non-rural, price-cap/rate-of-return, intrastate/interstate, local/long-distance); and
  - Sets rates for transit/transport based on efficient (forward-looking) costs.
- Gives wireline carriers additional flexibility in how they recover costs from end-user customers; and
- Reforms universal service by transitioning to one unified mechanism that encourages and rewards efficiency.

Verizon Opposition to the Missoula Plan

QUESTIONS & ANSWERS

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THANK YOU ON BEHALF OF THE CONSUMERS, CLECS, CABLE PROVIDERS, WIRELESS PROVIDERS, & VERIZON